

ORIGINAL

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION
OF MORENCI WATER AND ELECTRIC
COMPANY – ELECTRIC DIVISION – FOR
WAIVER OF THE RENEWABLE ENERGY
STANDARD TARIFF RULES

DOCKET NO.

E-01049A-16-0206

APPLICATION

The Morenci Water and Electric Company (“MWE”) hereby requests a complete waiver of the Renewable Energy Standard and Tariff Rules (“REST Rules”). MWE has always faced challenges in complying with both the Annual Renewable Energy Requirement and the annual Distributed Renewable Energy Requirement. Even so, MWE has, until now, been able to acquire bundled energy with renewable energy credits (“RECs”) as defined under the REST Rules, and has provided incentives to customers for eligible Distributed Energy Renewable Resources (“DERs”). But after significant additional efforts, procuring such bundled energy and RECs has become impossible and no additional customers have come forward with any applications to receive incentives for such eligible DERs. Therefore, MWE believes the time is right to request a complete waiver of the REST Rules, when it has only requested partial waivers in the past.

In the alternative, should the Arizona Corporation Commission (“Commission”) decide to not approve a complete waiver, MWE would request the same partial waivers it has received in the past, including (1) the waiver to exclude energy sales to Freeport McMoRan Inc. (“Freeport”) mining operations at Morenci and Safford from the calculations of the REST Rules requirements; and (2) the waiver of non-mining load from the annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805 originally granted in Decision No. 73632 (January 31, 2013) and affirmed in Decision No. 74864 (December 18, 2014). Further, MWE requests that its

1 Renewable Energy Standard Implementation Plan for 2015 and 2016 (“2015-16 REST Plan”)
2 remain in effect for 2017 and 2018.

3 **I. Introduction.**

4 In terms of number of customers, MWE remains a small electric utility that serves
5 approximately 2,678 customers in and around the town-site of Morenci and the Town of Clifton,
6 in Greenlee County, Arizona. MWE serves the Freeport mine at Morenci per an electric services
7 agreement approved in Decision No. 66937 (April 21, 2004). MWE also serves the mine owned
8 and operated by Freeport at Safford per an electric services agreement and a service territory
9 franchise agreement as approved in Decision Nos. 69200 and 69211 (December 21, 2006)
10 respectively.

11 MWE’s customer base consists of approximately 2,356 residential customers and 320 non-
12 residential customers with demand under 3 MW. Currently, approximately 1,171 of MWE’s
13 residential customers are renters within MWE’s town-site. Further, Freeport mining operations at
14 both Morenci and Safford have demand over 3 MW each month. Energy sales to mining
15 operations at Morenci and Safford, in aggregate, have averaged between 98 and 99 percent of
16 MWE’s total kWh sales per year (in 2013, approximately 98.14% was to serve mining operations).
17 Presently, MWE owns no generation and procures all of its power from the wholesale market to
18 meet load. This has also been the case historically.

19 **II. The reasons why a full waiver of the Annual Renewable Energy Requirement in the**
20 **REST Rules for MWE going forward is justified**

21 MWE believes several reasons support its request for a complete waiver from the REST
22 Rules at this time. While MWE has had past success meeting all facets of its non-distributed
23 Annual Renewable Energy Requirement (excluding the mining load) from 2008 through 2014,
24 acquiring bundled renewable energy (energy from Eligible Renewable Energy Resources with the
25 associated RECs) became impossible in 2015. MWE explained in an application to acquire
26 unbundled RECs from Salt River Project last September that it had explored several options to
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1 acquire bundled RECs; but that none of those options were feasible.¹ In that application, MWE
2 detailed how there is simply not a robust-enough renewables and RECs market in Arizona where
3 MWE can acquire the RECs with the energy *and* deliver that energy to its service territory.
4 Further, because MWE is a distribution-only utility, transmission access remains elusive, and
5 merchant Eligible Renewable Energy Resources (generation with available RECs and energy) are
6 not being built. Potential options to acquire bundled RECs were simply not available – including
7 purchasing from Arizona Public Service Company (“APS”), Tucson Electric Power Company
8 (“TEP”) or Public Service Company of New Mexico (none of whom are selling bundled RECs),
9 purchasing from renewable developers MWE contacted (all of whom were either fully subscribed
10 or did not have projects go forward), pursuing a Landfill Gas Project in Santa Cruz County (that
11 never materialized), and pursuing purchase of wind energy from Colorado (made impossible by
12 transmission constraints).

13 On December 29, 2015, Staff recommended against MWE buying unbundled RECs from
14 SRP.² Staff did not see the value to customers of MWE buying such RECs while commending
15 MWE’s efforts to try and develop a renewable energy program. Staff also recommended that
16 MWE receive a waiver of the Annual Renewable Energy Requirement for the REST Plan years
17 2015 and 2016 and that MWE not pursue unbundled RECs for the post-2016 period. The
18 Commission approved Staff’s recommendations in Decision No. 75457 (February 11, 2016).³

19 The bottom line is that MWE cannot purchase the bundled RECs to meet the requirements
20 in the REST Rules. Moreover, the Commission determined that acquiring unbundled RECs is not
21 consistent with the intent of the REST Rules, as explained by Staff in its December 29, 2015
22 Report. MWE’s renewable energy program is to procure RECs from eligible resources to the
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24 ¹ See Docket No. E-1049A-15-0317.

25 ² Staff’s Report is available on the Commission’s eDocket system at
26 <http://images.edocket.azcc.gov/docketpdf/0000167992.pdf>.

27 ³ Available at <http://images.edocket.azcc.gov/docketpdf/0000168365.pdf>.

1 extent those are available, and to offer incentives for eligible DERs. It cannot develop these
2 resources on its own. But purchasing bundled RECs has become impossible due to the
3 unavailability of such RECs for a variety of reasons summarized in the preceding paragraphs.
4 MWE notes that its non-mining customers are currently the beneficiaries of a stable, reliable and
5 safe power supply acquired for mining operations through Freeport Energy Services, and have
6 been beneficiaries for quite some time. Thus, MWE receiving a waiver from the Annual
7 Renewable Energy Requirement going forward would not frustrate much of the intent of the REST
8 Rules as cited by Staff in its Report – which is to maintain system reliability and to mitigate
9 against non-renewable fuel price volatility.

10 MWE believes that, after significant efforts to meet as much of the REST Rules
11 requirements as best it could, now is the proper time to receive a complete waiver of the REST
12 Rules requirements indefinitely – or at least until a robust renewable energy resources market
13 exists with significant transmission access to acquire affordable bundled RECs.

14 Even so, MWE recognizes that it currently has a positive bank balance for funds collected
15 through its renewable energy standard adjustor mechanism. MWE proposes to continue the
16 current rate of \$0.00 per kWh, and maintain the bank balance to provide incentives for customers
17 to install eligible distributed renewable energy resources for as long as funds are available. In
18 other words, MWE proposes to maintain its plan for DERs for customers within its service
19 territory. MWE would not pursue acquiring any energy from Eligible Renewable Energy
20 Resources with any funds in the bank balance should the Commission approve this Application.

21 **III. In the alternative, MWE requests continuation of partial waiver requests previously**
22 **approved, and that its 2015-16 REST Plan remain in effect for 2017-18.**

23 **A. Continuation of the partial waiver request to exclude mining load.**

24 In Decision No. 70303 (April 24, 2008), MWE requested and received a partial waiver
25 excluding the energy sales to mining operations at both Morenci and Safford from the calculations
26 of the Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and the annual
27 Distributed Renewable Energy Requirement under A.A.C. R14-2-1805. The Commission has

1 extended that waiver every year since 2008 – most recently for 2015 and 2016 in Decision No.
2 74864. MWE requests that the partial waiver remain in effect for 2017 and 2018.

3 MWE's load profile is and remains unique and is significantly different from any other
4 electric utility in the state. MWE's load profile is likely to remain similar for the next two years.
5 No other utility has had 98 to 99 percent of its energy sales come from two customers. As detailed
6 in its proposed 2015-16 REST Plan, MWE believes it would have to budget close to \$48.4 million
7 to meet its 2015 renewable energy requirements if there was no waiver (and an additional \$8.0
8 million in 2016, assuming the 2015 requirement is met). That amount would have to be funded by
9 less than 3,000 customers – most of whom are residential and small commercial customers. That
10 does not take into the account the increases in both the Annual Renewable Energy Requirement
11 and the annual Distributed Renewable Energy Requirement (in terms of total kWh).

12 Thus, to include the sales to Freeport mining operations at Morenci and Safford would be
13 unduly burdensome to all of MWE's customers. The rate and caps from MWE's renewable energy
14 adjustor mechanism would have to be raised substantially, which would result in unjust and
15 unreasonable charges to customers. No other Arizona affected utility would have charges nearly
16 as high so as to have the funding to meet the REST Rules requirements. Moreover, virtually all of
17 MWE's service territory consists of terrain is not suitable for development of any renewable
18 energy facilities; and it is not guaranteed any renewable facility established elsewhere in the state
19 for MWE's benefit could meet the deliverability standards as set forth in R14-2-1803(D) through
20 (F).

21 Also, MWE does not have enough customers to install the requisite amount of eligible
22 DERs needed to meet the requirement absent the waiver of mining load. Further, Customer
23 demand within MWE's service territory simply does not justify that high of an adjustor rate. In
24 short, MWE is and will continue to be in this unique situation that justifies a waiver of mining
25 load from the REST Rules requirements.

1 **B. Request for continuation of the waiver of the Distributed Renewable Energy**
2 **Requirement for non-mining load.**

3 MWE has not received any new inquiries for incentives from any other customer and does
4 not anticipate any new requests. Given that the terrain and demographics remain the same and
5 provide for limited opportunities for the implementation of distributed generation, MWE requests
6 that the waiver of the distributed energy requirement originally granted in Decision No. 73632
7 continue for 2017 and 2018. The Company, however, intends to continue to notify its customers
8 of the availability of incentives.

9 **C. Approval of its 2015-16 REST Plan to remain in effect for 2017 and 2018.**

10 Finally, MWE would also request approval of its 2015-16 REST Plan to remain in effect
11 for 2017 and 2018. Should the REST Rules requirements remain in effect for MWE, it would
12 maintain its approach to meeting those requirements that have been effect since 2008. MWE
13 would propose that its current plan be approved for the next two years since its plan would not
14 change, and a two-year approval would reduce administrative costs for MWE. With a two-year
15 approval, MWE would file its next plan (for 2019 and 2020) on July 1, 2018.

16 **IV. Conclusion.**

17 MWE requests that the Commission approve a full waiver from the REST Rules
18 requirements for MWE going forward. In the alternative, MWE requests continuation of its 2015-
19 16 REST Plan for 2017 and 2018, as well as extending (1) the waiver excluding the load to mining
20 operations from the REST Rules requirements; and (2) the waiver of the annual Distributed
21 Renewable Energy Requirement.
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1 RESPECTFULLY SUBMITTED this 24th day of June, 2016.

2 MORENCI WATER AND ELECTRIC COMPANY

3
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